

HEARTS OF HOPE
FINANCIAL REPORT
YEARS ENDED DECEMBER 31, 2011 AND 2010

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Darnall, Sikes, Gardes & Frederick

(A Corporation of Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hearts of Hope
Lafayette, Louisiana

We have audited the accompanying statements of financial position of Hearts of Hope (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearts of Hope, as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles of the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2012, on our consideration of Hearts of Hope's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana
May 10, 2012

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HEARTS OF HOPE

Statements of Financial Position December 31, 2011 and 2010

| | 2011 | 2010 |
|--|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 107,532 | \$ 55,167 |
| Grant funds receivable | 38,850 | 43,781 |
| Other receivables | 1,360 | 4,880 |
| Prepaid expenses | 5,661 | 4,809 |
| Inventory | 11,616 | 4,596 |
| Total current assets | 165,019 | 113,233 |
| PROPERTY AND EQUIPMENT | | |
| Office equipment, furniture & fixtures | 71,789 | 68,202 |
| Leasehold improvements | 5,028 | 5,028 |
| Less: accumulated depreciation | (70,501) | (67,220) |
| Net property and equipment | 6,316 | 6,010 |
| Construction in progress | 274,571 | 268,539 |
| Total property and equipment | 280,887 | 274,549 |
| OTHER ASSETS | | |
| Unamortized loan costs | 807 | 894 |
| Beneficial interest in assets held by others | 42,733 | 43,492 |
| Total other assets | 43,540 | 44,386 |
| TOTAL ASSETS | \$ 489,446 | \$ 432,168 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 11,063 | \$ 350 |
| Accrued liabilities | 4,404 | 2,328 |
| Notes payable | 7,867 | - |
| Due to Lafayette Consolidated Government | 40,963 | 24,777 |
| Long term debt - current portion | 7,858 | 7,420 |
| Total current liabilities | 72,155 | 34,875 |
| LONG TERM DEBT - NET OF CURRENT PORTION | 92,995 | 100,853 |
| TOTAL LIABILITIES | 165,150 | 135,728 |
| NET ASSETS | | |
| Unrestricted net assets | 229,787 | 201,171 |
| Temporarily restricted net assets | 94,509 | 95,268 |
| Total net assets | 324,296 | 296,439 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 489,446 | \$ 432,168 |

See Independent Auditors' Report and notes to the financial statements.

HEARTS OF HOPE

Statements of Activities

For the years ended December 31, 2011 and 2010

| | 2011 | 2010 |
|--|------------|------------|
| UNRESTRICTED NET ASSETS | | |
| SUPPORT | | |
| Donations | \$ 116,912 | \$ 90,701 |
| United Way of Acadiana | 67,249 | 37,285 |
| United Way of Iberia | 5,000 | - |
| Fundraisers | 65,468 | 92,497 |
| In-kind donations | 85,078 | 84,687 |
| Total support | 339,707 | 305,170 |
| REVENUES | | |
| Service fees | 70,184 | 58,727 |
| Interest income | 20 | 214 |
| Total support and revenues | 409,911 | 364,111 |
| Total net assets released | | |
| from restrictions | 197,621 | 246,758 |
| Total unrestricted support | 607,532 | 610,869 |
| EXPENSES | | |
| Program Activities | | |
| Children's Advocacy Center | 174,037 | 196,258 |
| Sexual Abuse Response Center | 266,820 | 225,639 |
| Sexual Assault Nurse Examiners | 92,906 | 120,653 |
| Total | 533,763 | 542,550 |
| Management and general expenses | 45,153 | 70,904 |
| Total expenses | 578,916 | 613,454 |
| Total expenses and losses | 578,916 | 613,454 |
| Increase (decrease) in unrestricted net assets | 28,616 | (2,585) |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| SUPPORT | | |
| CFC Grant | 481 | 1,330 |
| Children's Trust Fund | 3,414 | 3,363 |
| Crime Victims Association Grants | 107,256 | 113,479 |
| Lourdes Foundation | 1,800 | - |
| NCA Grant | 10,000 | 9,999 |
| Pinhook Foundation | 3,000 | - |
| Preventive Health Block Grant | - | 31,547 |
| Rape Prevention Education | 26,506 | - |
| Sexual Assault Services Program Grant | 18,738 | 24,889 |
| VAWA Grant | 21,261 | 20,905 |
| ARRA VAWA Grant | - | 15,508 |
| ARRA VOCA Grant | - | 19,640 |
| Restricted donations | 5,165 | 6,098 |
| Total support | \$ 197,621 | \$ 246,758 |

See Independent Auditors' Report and notes to the financial statements.

HEARTS OF HOPE

Statements of Activities

For the years ended December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| REVENUES | | |
| Investment earnings on endowment | \$ 49 | \$ (1,614) |
| Unrealized gain (loss) on endowment investments | <u>(808)</u> | <u>3,565</u> |
| Total support and revenues | 196,862 | 248,709 |
| Net assets released from donor restrictions | <u>(197,621)</u> | <u>(246,758)</u> |
| Change in temporarily restricted net assets | <u>(759)</u> | <u>1,951</u> |
| INCREASE (DECREASE) IN NET ASSETS | 27,857 | (634) |
| NET ASSETS AT BEGINNING OF YEAR | <u>296,439</u> | <u>297,073</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 324,296</u> | <u>\$ 296,439</u> |

See Independent Auditors' Report and notes to the financial statements.

HEARTS OF HOPE

Statement of Functional Expenses
Year ended December 31, 2011

| | CAC PROGRAM ACTIVITIES | SARC PROGRAM ACTIVITIES | SANE PROGRAM ACTIVITIES | MANAGEMENT AND GENERAL | TOTAL |
|---|------------------------------|-------------------------------|-------------------------------|---------------------------|-------------------|
| Compensation and related expenses: | | | | | |
| Salaries | \$ 128,879 | \$ 205,162 | \$ 30,003 | \$ 23,137 | \$ 387,181 |
| Employee benefits - | | | | | |
| Payroll taxes | 5,432 | 11,000 | 2,272 | 1,720 | 20,424 |
| Group insurance | 4,812 | 13,502 | 6,891 | - | 25,205 |
| Retirement | 1,266 | 200 | 755 | - | 2,221 |
| | <u>140,389</u> | <u>229,864</u> | <u>39,921</u> | <u>24,857</u> | <u>435,031</u> |
| Annual project/fundraising | 3,534 | 4,189 | 753 | - | 8,476 |
| Bank charges | - | - | - | 276 | 276 |
| Cleaning | 1,805 | 190 | - | 430 | 2,425 |
| Contract labor | - | - | 35,680 | - | 35,680 |
| Depreciation and amortization | 1,626 | 737 | 918 | 87 | 3,368 |
| Dues and fees | 1,474 | 969 | 432 | - | 2,875 |
| Education and professional development | 828 | 554 | 1,026 | - | 2,408 |
| Foundation/board | 120 | 196 | 34 | - | 350 |
| Insurance | 4,815 | 3,930 | 4,168 | 1,410 | 14,323 |
| Interest | - | - | - | 937 | 937 |
| Legal and accounting | 3,683 | 6,031 | 1,047 | - | 10,761 |
| Meetings and receptions | 250 | 420 | 87 | - | 757 |
| Office expenses/supplies | 6,189 | 10,567 | 1,699 | 5,133 | 23,588 |
| Public relations | - | 4,019 | - | 1,428 | 5,447 |
| Rape kits and supplies | - | - | 6,409 | - | 6,409 |
| Rent/building maintenance | 893 | 284 | - | 4,515 | 5,692 |
| Taxes and licenses | - | - | - | 1,380 | 1,380 |
| Telephone | 2,224 | 951 | 350 | 2,085 | 5,610 |
| Travel | 2,580 | 2,077 | 382 | 64 | 5,103 |
| Utilities | 3,627 | 1,521 | - | 2,551 | 7,699 |
| Volunteer development | - | 321 | - | - | 321 |
| | <u>-</u> | <u>321</u> | <u>-</u> | <u>-</u> | <u>321</u> |
| Totals | <u>\$ 174,037</u> | <u>\$ 266,820</u> | <u>\$ 92,906</u> | <u>\$ 45,153</u> | <u>\$ 578,916</u> |

See Independent Auditors' Report and notes to the financial statements.

HEARTS OF HOPE

Statement of Functional Expenses
Year ended December 31, 2010

| | CAC PROGRAM ACTIVITIES | SARC PROGRAM ACTIVITIES | SANE PROGRAM ACTIVITIES | MANAGEMENT AND GENERAL | TOTAL |
|--|------------------------------|-------------------------------|-------------------------------|---------------------------|-------------------|
| Compensation and related expenses: | | | | | |
| Salaries | \$ 143,307 | \$ 175,291 | \$ 53,220 | \$ 51,958 | \$ 423,776 |
| Employee benefits - | | | | | |
| Payroll taxes | 6,607 | 10,460 | 4,071 | 4,028 | 25,166 |
| Group insurance | 6,197 | 14,542 | 4,295 | - | 25,034 |
| Retirement | 1,170 | 996 | - | - | 2,166 |
| | <u>157,281</u> | <u>201,289</u> | <u>61,586</u> | <u>55,986</u> | <u>476,142</u> |
| Annual project/fundraising | 2,665 | 1,264 | 1,713 | - | 5,642 |
| Bank charges | 35 | - | - | 500 | 535 |
| Cleaning | 2,043 | - | - | 190 | 2,233 |
| Contract labor | - | 480 | 34,150 | 600 | 35,230 |
| Depreciation and amortization | 2,520 | 1,755 | 918 | 87 | 5,280 |
| Dues and fees | 1,451 | 1,329 | 845 | - | 3,625 |
| Education and professional development | 720 | 109 | 871 | - | 1,700 |
| Foundation/board | 229 | 105 | 106 | - | 440 |
| Insurance | 4,764 | 3,865 | 3,612 | 1,880 | 14,121 |
| Legal and accounting | 4,653 | 3,428 | 3,428 | - | 11,509 |
| Meetings and receptions | 622 | 193 | 171 | - | 986 |
| Miscellaneous expense | - | - | - | 475 | 475 |
| Office Expenses/supplies | 9,391 | 5,913 | 3,509 | 3,221 | 22,034 |
| Public relations | - | - | - | 1,400 | 1,400 |
| Rape kits and supplies | - | - | 6,881 | - | 6,881 |
| Rent/building maintenance | 1,148 | 722 | - | 218 | 2,088 |
| Taxes and licenses | 620 | 396 | 379 | 3,079 | 4,474 |
| Telephone | 2,154 | 779 | 550 | 1,942 | 5,425 |
| Travel | 2,389 | 2,088 | 1,622 | - | 6,099 |
| Utilities | 3,573 | 1,544 | 195 | 1,326 | 6,638 |
| Volunteer development | - | 380 | 117 | - | 497 |
| | <u>-</u> | <u>380</u> | <u>117</u> | <u>-</u> | <u>497</u> |
| Totals | <u>\$ 196,258</u> | <u>\$ 225,639</u> | <u>\$ 120,653</u> | <u>\$ 70,904</u> | <u>\$ 613,454</u> |

See Independent Auditors' Report and notes to the financial statements.

HEARTS OF HOPE

Statements of Cash Flows For the years ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ 27,857 | \$ (634) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,281 | 5,193 |
| Amortization | 87 | 87 |
| Unrealized (gain)/loss on endowment funds | 808 | (3,565) |
| Earnings restricted for long-term endowment | (49) | 1,614 |
| Increase (decrease) in: | | |
| Receivables | 8,451 | 21,596 |
| Inventory | (7,020) | 6,881 |
| Prepaid Expenses | (852) | (829) |
| Accounts Payable | 10,712 | - |
| Due to Lafayette Consolidated Government | 16,186 | 4,701 |
| Accrued liabilities | 2,077 | (4,349) |
| Total Adjustments | 33,682 | 31,329 |
| Net cash provided by operating activities | 61,539 | 30,695 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net purchases of fixed assets | (9,620) | (5,886) |
| Net cash used by investing activities | (9,620) | (5,886) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from notes payable | 7,867 | - |
| Principal payments on long term debt | (7,420) | (7,014) |
| Net cash provided (used) by financing activities | 447 | (7,014) |
| Net increase in cash | 52,366 | 17,795 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 55,167 | 37,372 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 107,532 | \$ 55,167 |

See Independent Auditors' Report and notes to the financial statements.

HEARTS OF HOPE

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hearts of Hope (the Organization) is a non-profit organization that is dedicated to providing help and healing for survivors of sexual trauma and violent crime, to providing help to lessen the trauma experienced by child victims when abuse allegations are investigated and throughout court proceedings and to conducting and documenting skillful forensic evidence collection with compassionate care when a patient makes a disclosure of sexual assault. Staff and volunteers maintain a 24-hour crisis line and provide escort services to the area hospitals.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The financial statements of Hearts of Hope have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore has no provision for federal income taxes. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the code. It is also exempt from Louisiana income tax.

Recognition of Donor Restrictions

Contributions are recognized as revenue when the donor makes a promise to give the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets.

HEARTS OF HOPE

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventory amounts consist of rape kits. Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost for assets purchased and at fair value at the date of donation for contributed assets. Donations of property and equipment are recorded as support at their estimated fair market value and are reported as unrestricted unless the donor has restricted the donated assets for a specific purpose. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Additions and betterments of \$250 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation expense was \$3,281 and \$5,193 for the years ended December 31, 2011 and 2010, respectively.

The Organization is housed in a building located at 911 General Mouton owned by the Lafayette Consolidated Government. The Organization has use of the building at no cost and there is nothing in the financial statements to reflect the cost. No fair market value has been determined.

Donated Services

The Organization recognizes donated services that (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected on the statements for donated services because no objective basis is available to measure the value of such services.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HEARTS OF HOPE

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Sick time is accumulated as a single compensated absence. Ten hours are earned per month for all full-time employees, (employees working 30 hours or more per week). Any unused accumulated balance can be carried forward to the following year. However, it is forfeited upon leaving employment; accordingly, no liability has been recorded in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

Subsequent events were evaluated through May 10, 2012, which is the date the financial statements were available to be issued.

NOTE 2 ASSETS TRANSFERRED TO A RECIPIENT ORGANIZATION

In 2003, the Organization transferred \$10,000 to the Community Foundation of Acadiana, Inc. to open an Endowment Fund for the benefit of the Organization. The Foundation has limited variance power over the fund. In the event that a donor restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the needs of the community, the Foundation may modify the restriction through the exercise of the variance power. Distribution from the Fund can be made solely for the support of the purposes of the Organization once the investment has reached \$1,000,000 as stipulated by the Organization's Board of Directors. No transfers were made to the Endowment Fund in 2011 or 2010. The Endowment Investment is reflected in the financial statements as a Beneficial Interest in Assets Held by Others in the amount of \$42,733 and \$43,492 as of December 31, 2011 and 2010 respectively and Temporarily Restricted Net Assets in each of those years.

NOTE 3 IN-KIND DONATIONS

In-kind donations included in the financial statements consisted of salaries provided by the Lafayette Consolidated Government in the amount of \$85,078 in 2011 and \$84,687 in 2010. A corresponding salary expense of \$85,078 and \$84,687, respectively, was recorded.

HEARTS OF HOPE

Notes to Financial Statements

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Net Assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|-------------------|-------------------|
| Purpose restriction accomplished: | | |
| Children's Trust Fund | \$ 3,414 | \$ 3,363 |
| Combined Federal Campaign | 481 | 1,330 |
| Crime Victims Association Grants | 107,256 | 113,479 |
| Lourdes Foundation | 1,800 | - |
| NCA Grant | 10,000 | 9,999 |
| Pinhook Foundation | 3,000 | - |
| Preventive Health Block Grant | - | 31,547 |
| Rape Prevention Education | 26,506 | - |
| Sexual Assault Services Program Grant | 18,738 | 24,889 |
| VAWA Grants | 21,261 | 20,905 |
| ARRA VAWA Stimulus Grant | - | 15,508 |
| ARRA VOCA Stimulus Grant | - | 19,640 |
| Restricted donations | 5,165 | 6,098 |
| Total | <u>\$ 197,621</u> | <u>\$ 246,758</u> |

A summary of Temporarily Restricted Net Assets as of December 31, 2011 and 2010 is as follows:

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| Temporarily Restricted Net Assets, Beginning | \$ 95,268 | \$ 93,317 |
| Change in Temporarily Restricted Net Assets | <u>(759)</u> | <u>1,951</u> |
| Temporarily Restricted Net Assets, Ending | <u>\$ 94,509</u> | <u>\$ 95,268</u> |

NOTE 5 GRANT FUNDS RECEIVABLE

Grant funds receivable at December 31, are summarized as follows:

| | <u>2011</u> | | |
|---------------------------|------------------|------------------|------------------|
| | <u>CAC</u> | <u>SARC</u> | <u>Total</u> |
| CVA Grant | \$ 12,222 | \$ 14,533 | \$ 26,755 |
| Rape Prevention Education | - | 3,416 | 3,416 |
| SASP Grant | - | 4,900 | 4,900 |
| VAWA Grant | - | 3,779 | 3,779 |
| Total | <u>\$ 12,222</u> | <u>\$ 26,628</u> | <u>\$ 38,850</u> |

HEARTS OF HOPE

Notes to Financial Statements

NOTE 5 GRANT FUNDS RECEIVABLE (CONTINUED)

| | 2010 | | |
|-------------------------------|------------------|------------------|------------------|
| | CAC | SARC | Total |
| CVA Grant | \$ 12,246 | \$ 14,265 | \$ 26,511 |
| NCA Grant | 2,427 | - | 2,427 |
| Preventive Health Block Grant | 5,472 | - | 5,472 |
| VAWA Grant | - | 2,983 | 2,983 |
| ARRA VAWA Stimulus Grant | - | 4,719 | 4,719 |
| ARRA VOCA Stimulus Grant | - | 1,669 | 1,669 |
| Total | <u>\$ 20,145</u> | <u>\$ 23,636</u> | <u>\$ 43,781</u> |

NOTE 6 NOTES PAYABLE

| | 2011 | 2010 |
|---|-----------------|-------------|
| Note payable to a bank related to a \$25,000 line of credit due April 30, 2012, bearing interest at 2.75% above the "Wall Street Journal Prime Rate", collateralized by all deposit accounts and certificates of deposit owned by Hearts of Hope as of December 31, 2011. | <u>\$ 7,867</u> | <u>\$ -</u> |

NOTE 7 LONG TERM DEBT

| | 2011 | 2010 |
|--|------------------|-------------------|
| A note payable to a Trust in the amount of \$135,000, payable in monthly installments of \$1,121, including interest at 5.75 percent per annum, through September 2021, secured by the property purchased. | \$ 100,853 | \$ 108,274 |
| Less: Current Portion | <u>(7,858)</u> | <u>(7,420)</u> |
| Total Long-Term Debt | <u>\$ 92,995</u> | <u>\$ 100,853</u> |

Year Ended December 31,

| | |
|------------|-------------------|
| 2012 | \$ 7,858 |
| 2013 | 8,322 |
| 2014 | 8,814 |
| 2015 | 9,334 |
| 2016 | 9,885 |
| Thereafter | <u>56,640</u> |
| | <u>\$ 100,853</u> |

HEARTS OF HOPE

Notes to Financial Statements

NOTE 8 CONSTRUCTION IN PROGRESS

During 2006, the Organization purchased the adjacent property from the owner. At December 31, 2011 the property remains in unusable condition and renovations are ongoing. Construction in progress is composed of a building valued at cost of \$150,000, capitalized interest of \$35,911, architect's and engineering fees of \$44,587, systems repair of \$21,021 and other related expenses totaling \$23,052 at December 31, 2011.

NOTE 9 RETIREMENT PLAN

The Organization began offering its employees the opportunity to participate in a "Simple IRA" retirement plan in May 2000. All eligible employees who work full time or over 30 hours per week may contribute from one percent (1%) of their gross pay upward. The Organization matches their contribution at two percent (2%) of gross pay. The associated expenses for 2011 and 2010 were \$2,221 and \$2,166 respectively.

NOTE 10 CONCENTRATION OF CREDIT RISK

The majority of the Organization revenues and grants receivable are from sub grants of U.S. Department of Justice Grants through the Louisiana Commission on Law Enforcement and Administration of Criminal Justice. A change in this funding could substantially affect the operations of the Organization.

NOTE 11 COMMITMENTS AND CONTINGENCIES

In 2007, the Organization purchased the adjacent property from a Trust for \$15,000 cash and a note payable in the amount of \$135,000. The building purchased was not in useable condition. The Organization contracted with an architect to develop plans for the renovation of the property. The total cost of renovation is estimated at \$600,000 and the total architect's fees based on the estimated cost of renovation are \$43,000, payable in installments due at specified project completion points. The Organization paid the architect \$0 and \$0 in 2011 and 2010 respectively. If the complete cost of renovation cannot be raised, the Organization will not be liable for further payments. The Organization has accounted for the cost of the building and the payments to the architect as construction in progress.

The Organization has an unused portion of a line of credit in the amount of \$17,133 (collateralized by all deposit accounts and certificates of deposit now owned or acquired hereafter by Hearts of Hope) as of December 31, 2011.

NOTE 12 FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments. The Organization places its temporary cash investments with one high quality financial institution. At times amounts may be in excess of FDIC insurance limits. As of December 31, 2011, the Organization had no significant concentrations of credit risk.

HEARTS OF HOPE

Notes to Financial Statements

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

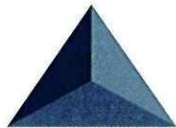
The fair values of the Organization's financial instruments are as follows:

Cash and short-term investments – The carrying amount approximates fair value because of the short maturities of those investments.

Note payable – Fair value approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities.

NOTE 13 NONCOMPLIANCE WITH GRANTOR RESTRICTIONS

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.



Darnall, Sikes, Gardes & Frederick

(A Corporation of Certified Public Accountants)

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Hearts of Hope
Lafayette, Louisiana

We have audited the financial statements of Hearts of Hope as of and for the year ended December 31, 2011, and have issued our report thereon dated May 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hearts of Hope's (the Organization's) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying

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schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, federal awarding agencies, pass-through entities and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than those specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document, therefore its distribution is not limited.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana

May 10, 2012

HEARTS OF HOPE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2011

We have audited the financial statements of Hearts of Hope as of and for the year ended December 31, 2011, and have issued our report thereon dated May 10, 2012. We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Our audit of the financial statements of December 31, 2011 resulted in an unqualified opinion.

Section I. Summary of Auditors' Reports

a. Report on Internal Control and Compliance Material to the Financial Statements.

Internal Control

| | | |
|--------------------------|---|--|
| Significant Deficiencies | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| Material Weaknesses | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Compliance

| | | |
|---|------------------------------|--|
| Compliance Material to Financial Statements | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
|---|------------------------------|--|

Section II. Financial Statement Findings

2011-1 Inadequate Controls over Financial Statement Preparation

Finding:

Hearts of Hope does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including related notes.

Recommendation:

Hearts of Hope should evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, to determine if it is in the best interest of the organization to outsource this task and then carefully review the draft financial statements and related footnotes prior to approving them and accepting responsibility for their contents and presentation.

Section III. Federal Award Findings and Questioned Costs

Not Applicable.

HEARTS OF HOPE

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2011

Section I. Internal Control and Compliance Material to the Financial Statements

2010-1 Inadequate Controls over Financial Statement Preparation

Finding:

Hearts of Hope does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including related notes.

Follow Up:

Unresolved – See current year finding 2011-1.

Section II. Internal Control and Compliance Material to Federal Awards

Not Applicable

Section III. Management Letter

Not Applicable

HEARTS OF HOPE

MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2011

Hearts of Hope respectfully submits the following corrective action plan for the year ended December 31, 2011.

The finding from the December 31, 2011 Schedule of Findings and Questioned Costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

Finding No. 2011-1

Recommendation: Hearts of Hope should evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP to determine if it is in the best interest of the organization to outsource this task and then carefully review the draft financial statements and related footnotes prior to approving them and accepting responsibility for their contents and presentation.

Action Taken: Hearts of Hope has evaluated the cost vs. benefit and has determined that outsourcing the preparation of the financial statements to the independent auditors is in the best interest of the organization at this time and will carefully review and approve the draft financial and related footnotes prior to issuance.

If the Louisiana Legislative Auditor has questions regarding this plan, please contact Jill H. Dugas, Executive Director, Hearts of Hope, P. O. Box 53967, Lafayette, LA 70505.
Telephone number: 337-269-1557.